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March 1987

Three Promotion Ideas That Paid Off
Why a Fuel Oil Jobber Likes Non-Home Sales
The Pros and Cons of Franchising

NPN

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Is Another Crunch Headed Our Way?

Buyer's Guide Issue

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MARCH 1987 VOL. 79 NO. 3

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Is the U.S. barreling down the road to a new supply shortfall, or are some in the industry trying to set the stage for a government-mandated price floor? Marketers' views differ. **Page 40**

Franchising has become a major force on the American economic landscape. Oil marketers are finding that there are both advantages and disadvantages to franchising their retail outlets. **Page 48**

With oil heat losing market share to natural gas in the Midwest, marketers are looking for alternate profit outlets. Rosewell, Mich. Amoco distributor Jim Spencer has doubled volume by attracting commercial business. **Page 54**

• TRENDS

Producers Face Test Of Resolve This Month

March is expected to be the month in which the resolve of the petroleum exporting nations to maintain crude oil prices will be tested. This is when winter demand fades and producing nations have two alternatives: accept the necessity of living with reduced exports or cheat on production quotas to maintain exports.

When the Organization of Petroleum Exporting Countries agreed in December to accept production quotas, and especially when they eliminated netback pricing, crude prices began rising and turned world petroleum buyers and traders into believers. Crude prices rose in December from about $15 bbl. to more than $18 bbl. on the New York futures market and remained in the $18-$19 range into February. A $3.50 bbl. increase is equivalent to more than 8¢ gal. in gasoline prices. OPEC was working toward an average of $18 bbl. for a basket of seven different crudes which had been selling for $13.80 in December. This would be a $4.20 bbl. increase, the equivalent of 10¢ gal.

OPEC's resolve spread to other exporting nations. Significant non-OPEC oil exporters demonstrated their willingness to cut exports in the range of what many OPEC nations were doing, 7% to 9%. Three important ones were the Soviet Union, Mexico, and Norway.

More important, OPEC nations have eliminated netback pricing and non-OPEC exporters have followed suit. The elimination of netback pricing was the public demonstration and acid test of the sincerity of exporting countries to do what they said they meant to do: namely, reduce worldwide crude supply sufficiently to bring it in line with demand [*NPN*—Oct. '86, p16].

For a price increase to stick, producers had to export less, and if they truly meant to, netback pricing would be a pointless giveaway. When production quotas are being observed, fixed prices are the logical way to go.

Netback prices are the ultimate price-war weapon, pegging the price of crude to the price of petroleum products in the marketplace, and therefore providing for a known and profitable refiner margin [*NPN*—June '86, p34]. Refiners are relieved of risk and exporters accept all of it to get the business.

As spring approached, prospects of continued firm prices were not all favorable. There was still too much inventory around the world. With luck, however, and continued belief in OPEC's determination, it appeared that this inventory could be worked off in an orderly way.

If belief in OPEC's resolve wavers, however, and holders of the surplus crude began to see prices weakening, the excess inventories would be dumped on world markets, accelerating falling prices.

This is why events in March are so important. It is the season when belt-tightening must begin among crude exporters. And this belt-tightening is not insignificant. OPEC members as a group have agreed to lop off about 1 of every 12 bbl. of exports this year compared with last. Their combined quota in 1986 was 18.1 million bbl. and they have agreed to limit their sales in the aggregate to 16.6 million bbl. this year—a decrease of 8.3%.

Discounts, barter deals, and other price-cutting mechanisms would be the harbinger of an impending price fall. The return of netback pricing would be the ring of doom from the seller's point of view.

These considerations only apply, it should be pointed out, if the Iran-Iraq war continues unresolved. If Iran wins, it will control 9 million b/d of potential production capacity, which in the aggregate has been running at less than 4 million b/d because of the war. With the ability to withhold this much oil from the world market, Iran would call the tunes, and it has made abundantly clear that it wants much higher prices. There is no practical limit to how high prices could go if a victorious Iran willed it. The $34 bbl. of 1982 could look like a bargain by comparison.

—Mark Emond

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

DECEMBER	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$ .830	$ .764	$ .823	$ .984
Regions:				
Northeast	.851	.775	.826	.982
North Central	.842	.788	.845	1.003
South	.813	.738	.805	.974
West	.821	.762	.817	.990

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	1/30/87	1/31/86
Gasoline (total)	250,847	236,314
Gasoline (Unleaded)*	140,252	117,997
Jet Kerosine	41,835	34,983
Distillates	142,036	137,510
Residual	41,950	48,657

**Included in gasoline total.*
Source: American Petroleum Institute.

The Way I See It: Warren Rogers

'The Way I See It' is an *NPN* feature where people representing various segments of the oil industry have a forum to address their views on what they see as the key issues affecting the industry. Warren Rogers, president of Warren Rogers Associates, Newport, R.I., is the author of this month's column. Considered to be one of the leading authorities on underground storage tank leakage, Dr. Rogers has served as a consultant to EPA, API and numerous state and regulatory agencies. He holds a degree in mechanical engineering from University of Dublin and a Ph.D. in Mathematical Statistics from Harvard.

Minimizing The Cost Of UST Regs

When tank owners finally get an opportunity to review the underground storage tank standards expected out any time now, it will be obvious that potentially the most costly provision will be the requirement for marketers to have placed into service either cathodically-protected single-walled steel tanks or their fiberglass equivalents within 10 years.

This will require very substantial capital investment by independent operators. EPA's 10-year time frame does allow, however, for a range of investment strategies which can be implemented with careful financial planning.

Our experience with large-scale tank upgrades by major companies has shown that the same end-results can be achieved for a wide range of costs depending upon how the programs are planned and executed. Careful planning and appropriate use of existing technology can reduce some costs as much as three-fourths.

If the only issue facing tank owners involved regulatory compliance, the most cost-effective response would be to defer all action for the maximum allowable period and invest the retained capital at the optimum rate of return. However, if spills should occur, tank owners would have to cope with cleanup and potential liability costs, irrespective of whether they are in compliance.

Based on reliable estimates by industry experts, cleanup costs per leak for the owners of large UST populations would be $157,000. This is a weighted average, however, and should be viewed as a conservative estimate. The table below displays the incidence of various leaks and their associated costs:

Estimated Cleanup Costs

Category	Incidence	Costs
Leakage confined to owners property	85%	$20,000
Migratory leakage but no third-party lawsuits	10%	$150,000
Migratory leakage with third-party lawsuits	5%	$2,500,000

(Expected cleanup cost per leak: 85% of $20,000, plus 10% of $150,000, plus 5% of $2,500,000 equals $157,000.)

The cost-effective program, therefore, is designed to balance costs and risks. The keys to success are these:

- Defer action at any site so long as it can be done safely.
- Target resources on existing or imminent risks.
- Extend the life of tanks at those facilities in which corrosion is not advanced.

Central to the establishment of such a program is the determination of the current and future corrosion status of existing steel tanks. This is a function of the environment surrounding the tank and can be determined accurately by a soil conversation survey. Such a survey establishes the current and future probabilities of leaks for all of the operator's facilities. It serves, therefore, to establish priorities for removal. The age of a tank alone does not determine its condition. Removals, in descending order of age, is among the least cost-effective procedures.

The best method of determining the real costs of a tank management program is to discount the expense of alternative budgets to present day dollars. This approach accounts for the opportunity costs of parting with your money at various times along the prescribed route. For example, if you expect a rate of return on your investment of 12%, then the present value of a $100,000 investment 10 years from now is $30,120. Similarly, by discounting expenses at various times in the future, you can examine budgetary alternatives in light of their costs in present day dollars.

To put this discussion in concrete terms, consider the situation faced by an owner of 100 retail facilities. Based on analyses conducted at 17,000 facilities nationwide, we have established a typical corrosion profile for the steel tanks at such facilities and, on average, the costs of cleanup which will be incurred if no preventive action is taken.

The costs of the various primary methodologies available to support tank management plans are outlined below. Based on national estimates, one can assume that each facility has 3-4 tanks (3.7 tanks/site). The costs are representative of average costs nationwide.

Costs of Alternative Methodologies

Replacement cost (per facility)	$75,000
Precision tank test cost (per tank)	500
Statistical inventory analysis (per tank)	75
Soil corrosion survey (per facility)	800
Cathod. protection install. (per facility)	5,000

Given the probabilities of a leakage over a 10-year horizon and application of both the cleanup and capital costs associated with the development of tank management plans, it is possible to determine the present value costs of alternative strategies. If it is assumed that a tank owner has 100 facilities and the tanks at his sites are representative of steel tanks nationwide, then it is possible to quantify his projected capital expenses as well as his latent exposure.

The simplest, and least likely, strategy for this representative tank owner to take would be no action whatsoever. At the end of 10 years he unloads all of his remaining facilities. Therefore his sole expense is the cost of cleanup which, discounted to present value, would be $7,291,500. This also happens to be one of the most expensive alternatives available and does not reflect his calamitous exposure to liability in the event he is charged with gross negligence.

The most expensive option would be a program of phased replacement in which tanks are replaced in descending order of age. In this case, 55% of the removed tanks are sound and the owner still has cleanup costs because younger tanks leak while older tanks are being replaced. Thus, the tank owner incurs capital expenditures of $4,780,000 to replace tanks and still incurs cleanup costs totalling $3,640,000. The total cost of such a program is thus $8,420,000.

(Continued on Page 32.)

Cost of Regs, Continued . . .

A third alternative, which is one that some state regulations prescribe, is to precision test all tanks annually and replace leakers when found. In this case, the present value cost of precision testing alone is $848,000. Moreover, the owner will incur $2,637,000 in tank replacement costs and still face $637,000 in cleanup costs. Even then, he will face considerable capital expenditures to upgrade or replace those tanks not identified as leakers at the end of 10 years in accordance with the new regulations.

Unfortunately, the common feature of the three approaches described above is that the tank owner is proceeding blindly and is still caught short by having unexpected leaks which cause considerable unbudgeted demands. If he can predict when his tanks will leak, then he can develop a reasonable plan for the phased replacement of his tanks over the EPA's prescribed 10-year period. Moreover, he has the option of protecting his existing good tankage by retrofitting cathodic protection. Most importantly, if he were to implement soil corrosion survey as a leak prediction device at his present sites, then the only cleanup costs would be that from tanks that are presently leaking, and his exposure to liability is eliminated. In this case the cost of corrosion survey at the 100 sites is $80,000 and good tanks can be preserved by retrofitting cathodic protection at the cost of $250,000. Tank replacement costs are reduced to $1,318,000 while the expense of initial cleanup costs and leak detection methodologies is $390,200.

The costs of these various approaches is summarized below. These are generic figures because no two tank populations are alike. However, they are illustrative of the costs of both the EPA's final regulations and the potential for liability that all tank owners face.

Alternative 10-Year Implementation Programs

Plan *	Total Program Cost	Cleanup Cost
No action	$7,290,000	$7,290,000
Replace in descending order of age	8,420,000	3,640,000
Annual precision tank testing; replace leakers when found	4,122,000	637,000
Soil-corrosion survey, retrofit cathodic protection, inventory analysis for leak detection	2,038,000	81,000

**Assumes 100 sites with 3 tanks site*

Outlining these costs highlights the fact that, regardless of the approach the tank owner takes, he still faces considerable capital expenditures over the years. Gasoline retailers should also be aware that any fines levied by any regulatory body will be small compared to the liabilities incurred if they fail to take action and tank leaks ensue. NEW

Exxon Goes ACH on Debit; Stirs Banking Community

Exxon has made waves among banking circles by using the automated clearinghouse (ACH) to process its proprietary debit card transactions. Simply put, it's like taking sidestreets instead of tollways; the ride may take longer, but it's cheaper.

By using ACH, which is itself an electronic network that links between 80% and 90% of the nation's banks, Exxon's proprietary card can access the customer's bank account without the use of other, established bank card networks.

Exxon still uses established automatic teller machine (ATM) networks like MPACT and Pulse cards in Texas, Honor in Florida, Cactus Switch in Arizona and, most recently, Virginia-based Cash Flow. Observers say the company wants to extend the debit convenience to all bank card holders, but wants to build a brand loyalty by offering a combined credit/debit card with the Exxon mark on it.

Financially, the transactions are cheaper, typically, between 15¢ and 20¢ for a regular "on-line" ATM network and under 5¢ for the ACH. Transactions move slower, however. While transactions through the ACH are settled the next day or two at most, an ATM network can process the transaction the same day.

The ACH transaction would be cheaper still if a government stipulation, known as Regulation E, was amended. The rule says that a statement detailing transactions must be mailed to every debit card holder. Exxon as well as other major oil companies, like Amoco, have supported a proposed amendment to that regulation.

Yet while the Exxon's move to ACH processing may be chilling for bank networks, it may mean good news for POS. Though the move would appear to take POS transaction volume away from established networks, other observers believe it will spur banks to act on their POS programs, and heat up the debit card activity at the retail level. NEW

Motor Fuel Tax Increases Considered in 38 States

Thirty-eight state legislatures will consider increases in their own motor fuel taxes this year to raise revenues for highway projects, according to the Highway Users Federation.

In its annual state legislative forecast, the Federation explains that when the 99th Congress failed to reauthorize the Federal-aid Highway Program, federal funds for highway improvement dried-up, deferring planned projects in nearly every state.

At the beginning of the year, state gasoline taxes averaged 13.3¢ gal. in addition to the federal gasoline tax of 9¢ gal., the Federation reports.

Meanwhile, 10 states will consider increases in their gasoline and diesel fuel sales taxes, the Federation says, including Oklahoma, New Mexico and several Midwestern states such as Illinois (See related story Page 24).

State gasohol tax exemptions will be topics in 26 state legislatures this year. Eleven states will consider enacting, extending or increasing the tax exemption, while 15 states will consider repealing, phasing out or decreasing the tax.

Controversy over the transportation of hazardous materials also has lead to a flurry of legislative activity in 42 states, the forecast says. Truck size and weight laws will come up in 19 states and licensing fees will be topics in 30 states.

PMEF Starts New School For Oil-Marketing CEOs

An intensive, four-day seminar designed totally for the top echelon of oil-marketing executives will be held later this month at Key Largo, Fla., under the auspices of Petroleum Marketing Education Foundation, Alexandria, Va. A similar session will be held Oct. 3-8 at a Southern California resort.

Among the many topics on the agenda: business lifecycles, merger/acquisition planning, diversification planning, personal finance and estate planning, personal management, team management and the CEO's Vision: Making It Happen.

The new school is the first of its kind in the PMEF programming. The faculty, PMEF said, is exceptional: George Overstreet, professor of finance at the University of Virginia; John Litt, president of Business Dynamics, Inc., Deerfield, Ill.; William Menke, senior planning advisor, American Management Assn.; and Warren Butler, former Exxon marketing executive who now has his own consulting firm in Woodlands, Tex. NEW

Oil Company Earnings Take It On Chin; U.S. and Foreign Downstreams Shine

Although virtually everyone in the business took it on the chin in the fourth quarter, downstream profits for the full year—especially those made overseas—softened the financial pains for the big oil companies and actually made some of them look good.

Downstream profits for Exxon, for example, were up 127% in 1986; Mobil 292%, Chevron 40%, Texaco 199%, Shell 18%, Amoco 38%, Arco 35%, Standard Oil (formerly Sohio) 24%, Phillips 34% and Sun 57%.

For the three or four oil companies that break out their downstream earnings between foreign and domestic profits, the figures were almost a revelation.

Exxon netted just a shade under $2 billion downstream in 1986, of which 76% ($1.5 billion) came from non-U.S. marketplaces; of Mobil's $1.3 billion downstream net last year, 72% ($928 million) also reflected overseas profits. Similarly, Chevron, which actually showed a minus sign in its domestic downstream earnings in 1986, pretty well made up for its overseas with 70% of its total of $689 million coming from there.

Except for Exxon and Mobil, however, the corporate earnings in 1986 were not all that happy looking. Exxon's corporate net of $5.4 billion was up 10% over 1985, and Mobil's $1.4 billion was up a spanking 35% over the preceding year. All the other big companies had minus signs ranging from 27% for Sun to 54% for Chevron and 61% for Amoco.

The slump in earnings reflected the collapse of crude oil and product prices in 1985 and a wide variety of discounts via tax write-offs, inventory re-evaluations and similar economic reappraisals. These ranged from the millions to the billions, some resulting mostly from hard-headed bookkeeping to coping with heavy indebtedness incurred in better times or mergers, acquisitions and standoffs in take-over activities.

The two biggest earnings losers in 1986 were Standard Oil Co., formerly Sohio, and Amerada Hess Corp. Standard was down $345 million and Hess $219 million.

USX Corp., formerly known as U.S. Steel Corp., said subsidiary Marathon Petroleum Corp. rang up a profit in 1986 but nothing like in 1985. Its operating income in the fourth quarter was $81-million versus $315-million in 1985, and for the full year $73-million compared with $1.3-billion in 1985.

Another significant "loser" in 1986 was petroleum's "Billion Dollar Club," i.e., the listing of oil companies which rack up $1 billion or more in net earnings. It fell from 1985's lineup of six companies to two in 1986—Exxon and Mobil. Those that fell by the wayside were Chevron, Texaco, Shell and Amoco. In bygone years, there have been as many as 10 to 12 oil companies in this billion dollar-plus category. With prices rising again, the "Club" could expand again in 1987.

For most of the companies, the downstreams earnings were the high points of the year just ended. Phillips Chairman C.J. Silas said 1986 was one of the best ever for downstream nets. Shell President John F. Bookout also was on the modestly

(Continued on Page 36.)

Fourth Quarter and Full-year Earnings Reports

(millions of dollars)

Company	4th Qtr. 1986	4th Qtr. 1985	% Chng.	Full Year 1986	Full Year 1985	% Chng.
Exxon	$1,480.0	$1,805.0	(18.0)	$5,360.0	$4,870.0	10.1
Mobil	201.0	425.0	(52.7)	1,405.0	1,040.0	35.1
Chevron	(86.0)	601.0	—	715.0	1,547.0	(53.8)
Texaco	50.0	307.0	(83.7)	725.0	1,230.0	(41.1)
Shell	254.0	652.0	(61.0)	883.0	1,650.0	(46.7)
Amoco	165.0	390.0	(57.7)	747.0	1,953.0	(61.8)
Conneco	3.0	43.0	(93.0)	(39.0)	(1.0)	—
Arco	64.0	142.0	(54.9)	615.0	(202.0)	—
Standard Oil	31.0	(771.0)	—	(345.0)	308.0	—
Phillips	11.0	95.0	(88.4)	228.0	418.0	(45.5)
Sun	70.0	414.0	(83.1)	385.0	527.0	(26.9)
Unocal	49.2	(134.7)	—	175.8	325.1	(45.9)
Amer. Hess	58.3	(365.8)	—	(219.4)	(260.4)	—
Dia. Sham.	(42.2)	(47.8)	—	(115.6)	(604.7)	—
Ashland (*)	27.2	50.3	(45.9)	—	—	—
Kerr-McGee	8.8	27.6	(68.1)	(291.7)	136.5	—
Pennzoil	46.5	(141.4)	—	45.4	113.9	(59.9)
Murphy	(207.8)	17.1	—	(194.8)	79.7	—
Amer. Fina	5.0	(39.4)	—	(24.6)	(10.2)	—

Downstream: More Sunshine Than Gloom

(millions of dollars)

Exxon (total)	$336.0	488.0	(31.1)	$1,976.0	$872.0	126.6
domestic	17.0	84.0	(79.8)	480.0	229.0	109.6
foreign	319.0	404.0	(21.0)	1,496.0	643.0	132.7
Mobil (total)	254.0	145.0	75.2	1,294.0	333.0	292.1
domestic	65.0	66.0	(1.5)	366.0	157.0	133.1
foreign	189.0	79.0	139.2	928.0	176.0	427.3
Chevron (total)	46.0	175.0	(73.7)	689.0	490.0	40.6
domestic	(128.0)	129.0	—	209.0	321.0	(34.9)
foreign	174.0	46.0	278.3	480.0	169.0	184.0
Texaco						
worldwide	(10.0)	165.0	—	825.0	276.0	198.9
Shell						
domestic	35.0	167.0	(79.0)	319.0	269.0	18.6
Amoco						
worldwide	37.0	59.3	(37.3)	362.0	262.0	38.2
Arco						
domestic	48.0	27.0	77.8	353.0	262.0	34.8
Standard Oil						
domestic	108.0	57.0	89.5	436.0	351.0	24.2
Phillips (total) (**)	75.0	106.0	(29.2)	458.0	342.0	33.9
domestic	72.0	110.0	(34.5)	443.0	327.0	35.5
foreign	3.0	(4.0)	—	15.0	15.0	—
Sun						
domestic	(7.0)	24.0	—	201.0	128.0	57.0
Amer. Hess	37.0	3.2	105.6	N.A.	N.A.	—
Ashland (*)(**)	21.9	54.5	59.8	—	—	—
Kerr-McGee	8.3	9.9	(16.2)	13.2	24.7	(46.6)

(*) Ashland is 1st. Qtr. on both tables; fiscal ends 9/30.
(**) Operating and pre-tax, not net.

Earnings, Continued . . .

cheerful side. He said: "Although we see no indications of a dramatic crude oil price improvement, the worst may be behind us." There were other scattered notes of optimism. Arco's Chairman L.M. Cook noted that crude prices had improved in the waning hours of 1986 and commented: "We believe that the worst may be over and that 1987 results will reflect more fully the benefits of our (Arco's) restructuring." Since many companies restructured in 1985 and 1986, this possibly could be applied to them too.

The problems in 1986 were simply too much crude oil, an excess of products, a collapse of the international pricing structure and a comparable trauma in product prices for all sorts of uses. Perhaps Shell's Bookout summed it up best when he said that as far as his company was concerned, "domestic crude oil prices averaged $11.65 bbl. for the quarter compared with $24.42 for the fourth quarter of 1985, and averaged $13.20 bbl. for the full year, compared with $24.55 for all of 1985."

The shortages in the cash flows precipitated serious problems for many oil companies in 1986. Capital expenditures were halved in many areas, and much talent was lost in the paring of payrolls and the voluntary/involuntary retirement plans that were commonplace. The exploration industry was all but decimated and with U.S. production declining and domestic consumption rising. There were also anxieties that the nation is on a collision course with another major oil crisis in the not-too-distant future (See story on Page 40). NPN

U.S. Supreme Court Mulling Texaco Bond Requirement

In their austere chambers in the nation's capital, the nine justices of the U.S. Supreme Court are debating the fate of Texaco Inc., the nation's fourth ranking oil company.

Specifically, they are debating whether Texaco will have to post a $12 billion bond while it appeals a $10.5 billion verdict won by Pennzoil Corp., or whether the lower courts were proper in intervening and authorizing a much lower figure of $1 billion. Texaco contends that a $12 billion bond would force it into bankruptcy.

A decision is expected by June or July. The High Court normally goes on summer vacation throughout the month of August and it is believed that the Justices will be glad to have disposed of the bitterly contested case by then. Arguments in the suit were pressed in mid-January by Laurence H. Tribe, a Harvard law professor and Constitutional expert representing Pennzoil, and David Boies, of New York, considered one of the sharpest legal minds in the land, representing Texaco.

Questions by some of the justices during the oral arguments poked into the areas of size, equal opportunity and whether federal intervention was proper or improper in what nominally would be a state's rights case but with extraordinary consequences for both sides. The jury verdict itself was the largest in the nation's history. NPN

Bechtel To Manage Refinery Project

Bechtel, Inc. has been named project manager for the 100,000 b/d refinery to be built in Valdez, Alaska, and operated by Alaska Pacific Refining, Inc.

APRI was formed last year to build the high-technology petroleum refinery, which is expected to cost some $750 million and will export refined fuels to Pacific Rim markets [*NPN*—Oct. '86, p28].

The Valdez refinery would be the first built in the U.S. primarily for exporting product, according to the company. It is to be built at the deepwater port terminus of the Alyeska Pipeline.

J. Timothy Campbell, APRI chairman and president, says Bechtel will have "financing participation" in the project with Bank of America serving as financial advisor.

Campbell adds that "major progress" has been made "in arranging for the long-term sale of APRI's refined product," and the company's timetable is exceeding expectations "by a significant margin."

Bechtel, Inc. claims nearly 60 years of experience in the petroleum industry, including the design and construction of more than 150 refineries and petrochemical facilities.

Construction of the Valdez refinery is expected to begin this spring and will include connecting pipelines, dock facilities and a power plant. Employment during construction should reach 1,500 while the refinery's permanent operation staff should be 250 employees, Campbell says.

Arco's 'Paypoint' Pays Off As Carl's Jr. Test Begins

Arco has begun selling the base of 13 million debit cards it built up with its "PayPoint" system. In a test program with fast food chain Carl's Jr., 35 of the restaurants will be linked up to Arco's debit network, originally created to handle debit transactions for the company's am/pm mini-marts and MPG repair shops.

The test will begin in May and will include 35 Carl's Jr. locations in Sacramento and the San Joaquin Valley in California.

What Arco is offering the retailer above and beyond what any single bank or regional network is an expanded card holder base. PayPoint can already access a 9 million card holder base with Interlink. But Arco also has access to about 3 million Star card holders and about 1 million other bank, savings and loan and credit union card holders.

Carl's Jr. is providing their own hardware, which will carry the PayPoint logo, Arco said. "Arco provides the card base and switching capabilities," said a company spokesman.

Carl's Jr. customers will also be able to receive $20 cash when they use their ATM cards, but will be charged 10¢ per transaction to cover processing costs.

"We have been looking into other retail marketing applications for PayPoint," said E.G. Reilly, senior vice president for Arco's marketing and refining division. "This test with Carl's Jr. provides us with an excellent opportunity to try expanding the network outside of the petroleum industry." NPN

Interlink, Honor Boost POS Terminal Numbers

The number of point-of-sale terminals on-line and accepting debit cards has increased by 40% over a six month period, states an industry publication.

In a semi-annual study by *POS News*, an industry newsletter, tallies showed 27,417 terminals on-line in January as compared to 17,256 for June 1986. As a whole, the terminals currently perform four million transactions a month.

The rise in the number of terminals reflects the growth of Interlink, a West Coast network, by 4,000 terminals and Honor, in Florida, by 3,000, the newsletter said.

The number of service stations with POS terminals rose by about 2,000, going from 5,563 in June 1986 to 7,632 in January 1987. Terminals in C-stores doubled with 1,268 in June and 2,702 in January. The rest of the terminals are in supermarkets and "specialty stores," like flower shops and record stores.

POS operators are predicting the total number of terminals to almost double to 65,000 by the end of 1987. NPN

Is Another "Energy Crisis" Coming, Or Is Industry Simply Crying Wolf?

"The country today faces a serious energy problem (and) . . . Washington policymakers appear not to understand the full magnitude of the problem."

American Petroleum Institute

"By 1989-1990, I think we'll see a real honest-to-goodness (supply) shortage like we've never seen before."

Bruce McCall
former marketing VP
Conoco Inc.
now a marketing consultant.

"More imports mean more products are available to independents."

Dave Harris
President
Harris Enterprises
Portland, Ore.

"Some people are trying to get crude prices up or get the government to put in a floor."

Herb Richards
West Coast Independent marketer.

Is the U.S. headed toward another energy supply crisis as bad or worse than anything experienced in the 1970s? Or, are some industry people trying to talk up such a possibility to get a government-mandated price floor on crude oil?

The numbers and trends of recent months, which even the naysayers do not dispute, certainly support the Chicken Little voices.

In a nutshell, the figures show that the U.S. is using more oil while the domestic oil industry is producing less and has sharply curtailed its search for new reserves.

Last year, the U.S. consumed 16.2 million b/d of oil while its domestic industry produced 8.7 million b/d of crude and 1.6 million b/d of natural gas liquids which can be processed like crude. This shortfall of 5.9 million b/d in production versus demand will continue to climb, most industry analysts say.

The U.S. is already almost as dependent on foreign oil as it was when the Arab embargo of 1973-74 brought long lines at gasoline pumps and soaring prices. The nation was importing 36% of its requirements at that time. By 1978, when the Iranian Revolution brought on another major supply disruption, 47.7% of the nation's requirements were being imported. This alarming figure subsequently was reduced to 26.5% by the end of 1985. It began creeping up in January and by the end of 1986, crude imports were close to 40% again.

If present crude oil price trends continue, says the American Petroleum Institute, the U.S. will be 50% or more dependent on foreign oil within three to five years. By 1995, the nation may be importing 11.4 million b/d or 60% of its total oil

By Marvin Reid and J. Richard Shaner, with staff reports

requirements, according to the National Petroleum Council.

This puts the U.S. in a very precarious position, warns API, including the possibility that its foreign policies might be dictated by its dependence on foreign oil. It will, in effect, put the U.S. industry and American consumers alike at the mercy and whims of foreign powers, especially those in the Middle East.

Some people, particularly independent gasoline marketers, say API and some producer-oriented trade groups are unnecessarily crying wolf because producers want foreign imports taxed. The independent marketers, by and large, are against any oil import tariffs. They don't see that much risk in being heavily dependent on foreign oil.

Both sides generally agree, though, that the U.S. is rapidly headed toward becoming more dependent on both foreign crude oil and foreign refined products than it was during the supply-short times of the 1970s.

Some sources believe the stage will be set for panic conditions much sooner than API's three-to-five year time frame. Some of these sources think the U.S. will be in a precarious position by next year or 1989 at the latest. There's also the danger that major developments in the Middle East, perhaps an Iranian victory over Iraq, or Soviet intervention in some way, could create panic-button conditions literally overnight.

Why Again?

Considering that it was just seven years ago when the Iranian Revolution brought long lines at U.S. gasoline pumps, it is logical to ask why has the domestic oil industry allowed such an imbalance in supply and demand to occur again.

The collapse in world oil prices last year is the major reason, industry sources say. API estimates that the industry lost $50 billion last year when crude oil prices fell 50% or more. That collapse in prices has caused dramatic cutbacks in exploration and production activity by U.S. oil companies.

Even before the plunge in crude prices, though, the domestic oil industry had been undergoing a traumatic overhaul as companies scrapped marginal operations from the wellhead to their gasoline pumps.

Most of those cutbacks in facilities and personnel were made to reduce operating costs and make the oil companies more competitive in their downstream refinery and marketing operations. It has left the industry in a snug position, though, in refinery capacity and storage.

The domestic industry has scrapped about 150 refineries totaling 2 million b/d capacity since early 1981. It now has about 15.6 million b/d of refining capacity left and this was recently being operated at 82% of capacity.

What all the cutbacks in production and refining capacity means is that the U.S. is now looking overseas not only for an increasing amount of crude oil but also for more and more of its refined oil product requirements. The API noted that the U.S. imported 6 million b/d of refined products during 1986, or about 35% of domestic demand.

If for some reason the foreign flow of oil to the U.S. is cut off, the domestic oil industry will be less capable of meeting the nation's requirements than it was in the 1970s, most industry sources agree. It now has far fewer refineries, storage tanks, people and just about everything else than in 1978-79, when the Iranian fundamentalists chased the Shah from the land and disrupted Middle East import patterns.

"Before, we could do something rapidly" when there was a major supply disruption, says Bruce McCall, one-time marketing vice president of Conoco and now a marketing consultant. "We had the refineries and the storage and the people. We could quickly reroute supply and so forth. But we've lost our logistical system with all the refinery closings and so forth. We will be in real trouble" if another major disruption occurs.

Where We Stand

Here are some of the things that have been happening recently which support those who see oil supply troubles ahead:

- Domestic consumption of oil rose 2.5% the first 10 months of 1986 and has been accelerating, according to API, with motor gasoline demand alone averaging about a 4% increase from the summer months through November.
- Domestic oil production, meanwhile, dropped 300,000 b/d in that same period and API predicts that within the next 12 months, domestic production will drop 1 million b/d below 1985 levels.
- Imports are rising sharply. The U.S. imported 1 million b/d more oil in 1986 than in 1985, according to API, and imports are continuing to soar. This past November, imported oil supplied about 40% of the nation's requirements. The probability is that with U.S. production headed for another slippage of as much as 500,000 b/d this year, imports could rise by an equal amount by the end of 1987. That could increase the import ratio to 42% to 44%.

A few months back, before the Organization of Petroleum Exporting Countries (OPEC) reached a shaky agreement to reduce production, some experts estimated that a surplus of about 150 million bbl. of oil hung over the free world market.

Most experts agree that this surplus is now being worked down. In fact, says API, the rise in American demand for foreign oil alone could absorb much of OPEC's current surplus capacity within three to five years.

API and others are warning that such trends signal an approaching "energy crisis" for the nation, one that could bring back those soaring prices and lines at gasoline pumps of the '70s. Greater dependence on foreign oil might also force the U.S. into foreign policies that otherwise would not be dictated by its interests, says API.

API would like to get a "national dialogue" going involving Congress, the White House, and others to "develop a consensus agreement on the . . . problem" and then search for solutions. The national examination of solutions, says API, could include such things as import fees or quotas and gasoline tax increases.

Independents Reaction

Independent gasoline marketers, in general, do not share the concern that others profess about the danger the U.S. faces in becoming too dependent on foreign oil. For the most part, indies want to continue having easy access to foreign oil supply and are adamantly opposed to such things as tariffs or quotas.

Some independents believe there is still plenty of oil in the free world and sellers of it need big markets like the U.S. As long as these conditions exist, they see no major danger.

Says Herb Richards, a large West Coast independent marketer: "Some people are trying to get crude oil prices up or get the government to put in a floor. I don't think the fact imports may exceed 50% is any threat at all. We have a lot of standby oil and there's too much non-OPEC oil elsewhere in the world to be worried about a possible crisis in the Middle East."

A shortfall would be 'chaos' says one marketer

It is talk about a possible imports fee or similar measure which gets the independent marketers riled up. "We think a free market is the solution to the problems. We are adamantly opposed to government intervention of any sort, be it a floor or a control," says Phillip Chisholm, executive director of Petroleum Marketers Assn. of America.

The Society of Independent Gasoline Marketers of America also opposes import fees or quotas.

Outlook For Marketers

For the domestic marketing industry, what happens this spring, summer and fall and next winter will likely define the situation and make it plain whether fears about the future are justifiably tenable or whether they are merely negative scenarios years away from fulfillment.

Marketers who went through all of the supply panic of the 1970s probably view the possibility of a rerun with mixed emotions. On the one hand, supply shortages invariably mean fat profit margins, but these are of little benefit if the marketer can't get supply.

Some marketers who fared well back in the 1970s have been eagerly awaiting another such period. As some will admit today, there were times back then when they made more money than they ever dreamed of, either legally or illegally.

Today, the situation is different than there was back then. Before the first big crunch in late 1973-74, price controls, allocation formulas and various other regulatory items were already in place, put there by the Nixon Administration in its struggle with trade deficits and economic matters remarkably similar to those besetting the Reagan Administration today.

Some companies are still putting their customers on allocation formulas to solve temporary supply situations but—and this is something that also worries some independents and suppliers alike—there are no federal, state or industry systems or concepts in abeyance to handle, say, a sudden and severe shortfall. The government tried to prepare for such an eventuality some years ago but the whole process died of its own weight.

"It would be chaos," says Bruce McCall, who was Conoco's marketing chief during the often panicky days of the '70s. "Not only is no system set up at the moment, but we've seen a 35-40% attrition of refining and marketing people

The Forecasts: How They Vary on Imports and Production

U.S. Petroleum Consumption

(Millions of b/d)

	1986	1990	1995	2000
Chase Econometrics				
$12 bbl. (1986$)	16.4	18.2	20.3	22.6
$20 bbl. (1986$)	16.3	17.6	19.4	21.4
	Actual 1985	**1990**	**1995**	**2000**
Chevron				
High price scenario	15.7	16.1	16.6	17.0
Conoco				
Base Case	15.7	16.5	17.3	18.2
Data Resources, Inc.				
Base Case	15.7	17.3		
$10 bbl.	15.7	18.4		
DOE/Energy Info. Adm.				
Base Case	15.7	16.1	16.6	
Lower Case	15.7	17.1	18.2	
Nat'l Petro. Council				
Upper Price Trend	15.7	16.3	17.0	17.4
Lower Price Trend	15.7	17.6	19.0	19.9

U.S. Oil Imports

(Millions of b/d)

	Actual 1985	1986	1990	1995	2000
Chase Econometrics					
Low Price Scenario					
Net Imports	4.3	6.0	11.3	—	18.8
% of Consumption	27	37	62	—	83
High Price Scenario	4.3	5.9	8.4	—	16.1
% of Consumption	27	36	48	—	75
Chevron					
High Price Scenario					
Net Imports	4.3	5.9	8.4	—	16.1
% of Consumption	27	—	38	47	53
Conoco					
Base Case					
Net Imports	4.3	—	34	43	56
DOE/Energy Info. Adm.					
Base Case					
Net Imports	4.3	—	5.8	7.8	—
% of Consumption	27	—	36	47	—
Low Price Base					
Net Imports	4.3	—	7.4	11.1	—
% of Consumption	27	—	43	60	—
Nat'l. Petro. Council					
Upper Price Trend					
Net Imports	4.3	—	6.2	7.9	9.1
% of Consumption	27	—	38	47	52
Lower Price Trend					
Net Imports	4.3	—	8.4	11.4	13.6
% of Consumption	17	—	48	60	68

Source: Domestic Petroleum Production and National Security, a Study by the American Petroleum Institute, 12/30/86.

U.S. Oil Production Forecasts

(Millions of b/d)

	Actual 1985	1987	1991	2000
Amer. Petro. Survey				
Price Assumptions (1985$)				
$10 bbl.	8.9	7.1	5.1	—
$15 bbl.	8.9	8.0	6.2	—
$20 bbl.	8.9	8.5	7.5	—
$28 bbl.	8.9	8.9	9.1	—
	1986	**1990**	**1995**	**2000**
Chase Econometrics				
$12 bbl. (1986$)	8.7	5.8	4.3	3.2
$20 bbl. (1986$)	8.7	7.7	7.0	4.5
Chevron				
High Price Scenario	8.8	7.9	6.9	6.2
Low Price Scenario	8.8	6.4	—	—
	Actual 1985	**1990**	**1995**	**2000**
Conoco				
Base Case	8.9	8.0	7.0	6.2
Data Resources, Inc.				
Base Case	8.9	8.1	7.1	6.2
$10 bbl.	8.9	6.9	—	—
DOE/Energy Info. Adm.				
Base Case	8.9	8.1	6.5	—
Lower Case	8.9	7.2	5.0	—
Nat'l. Petro. Council				
Upper Price Trend	8.9	8.6	7.0	6.4
Lower Price Trend	8.9	7.1	5.7	4.5

Source: Domestic Petroleum Production and National Security, a Study by American Petroleum Institute, 12/30/86.

Trends in OPEC and NonOPEC Oil Production(*)

(Millions of b/d)

	Actual 1985	1990	1995	2000
Chevron				
OPEC	16.1	—	—	26.4
NonOPEC	25.6	—	—	20.4
Conoco				
OPEC	16.1	—	—	31.8
NonOPEC	25.6	—	—	18.5
DOE/Energy Info. Adm.				
OPEC	16.1	23.4/24.8	25.3/25.9	—
NonOPEC	25.6	23.8/24.9	21.6/24.0	—
Nat'l. Petro. Council				
Upper Price Trend				
OPEC	16.1	20.6	24.0	27.5
NonOPEC	25.6	24.7	23.9	22.5
Lower Price Trend				
OPEC	16.1	25.8	31.8	37.0
NonOPEC	25.6	22.4	20.4	18.6

(*)*NonOPEC excludes USSR, China and other Communist countries.*

from the oil companies since then. A lot of experience gained from the last one has been lost."

McCall says if he were a marketer today, "I'd be raising hell with my trade association executive to get a supply allocation system set up. There might not be time to do so after a shortage hits. All kinds of things can occur very quickly" to shut off the foreign oil.

McCall also advises jobbers to make certain they are dealing with "a reputable supplier" who is committed to his market, and to make certain he keeps good records of his product purchases and sales. Jack Malone, a big Tennessee independent, also hammered hard at the importance of recordkeeping. A lot of people got hurt in the '70s in allocations because they didn't have adequate records to support their contentions, he said.

What Happened Last Year

This is what happened in 1986, a year which the president of America Petroleum Institute, Charles J. DiBona, says was the most traumatic in the industry in a half-century or more:

- Crude oil prices plummeted from the $30 to $35 bbl. range to the $8 to $10 level at home and abroad.
- This caused a near-collapse of the domestic exploration industry as capital budgets were halved and drilling rigs were stacked by the thousands.
- The plunge in crude also forced product prices to their lowest levels in years—retail postings as low as 60¢ gal. for gasoline at one point and space heating fuels well under $1 gal. at the height of the season.
- This cut profits and produced cash flows that were so inadequate or so thin that many smaller firms simply folded their tents or succumbed to merger and buyout offers.
- Many marginal producers of crude oil tossed in the towel too, saying $10 to $15 bbl. wasn't enough to keep their stripper wells in operation profitably. Now shut down, these margin wells are now presumed lost forever.
- U.S. production, as one result, dipped 300,000 b/d in 1986—the first such decline since the late '70s. Even more startling, however, is the fact that December production was down some 900,000 b/d from that of the January-February period.

The low prices and the fact that crude and product from the OPEC cartel were flooding the international marketplaces

'(OPEC) can get fat (at $18 bbl.) and we can't drill'

created an anomalous situation for the U.S. industry.

- Consumption of gasoline, for example, rose briskly in response to the 60¢ to 70¢ gal. retail postings. It was up only 2.6% for the year and was running closer to 6% in the waning months of 1986.
- With domestic production down, more and more crude oil and products were imported from overseas. Nominally, they were running at a rate of 6 million b/d for the year but in the last six months of 1986 they topped 6.6 million b/d. Imports from the volatile Persian Gulf area jumped more than 300% in 1986 and accounted for more than half of the total increase in imports in 1986.
- The probability is that imports will keep rising. U.S. production, without a major increase in the price of crude oil—to $25 bbl. or higher, which didn't seem too likely at year's end—to revive it and the flagging exploration segment, can be expected to slip further.
- Imports averaged 34% of demand during 1986 but at year's end, in response to consumption increases, were closer to 40%. That isn't far below the peak year of 1978 when they averaged 44%.

OPEC's Goal?

OPEC has been struggling to regain the world dominance it held in the 1970s. Just before the turn of the year it managed to work out a production quota reduction system that would restrict output and eliminate the global surpluses that have been around for years.

This led to speculative prices of $18 to $19 bbl. for crude oil in late December and early January—the best market prices in a year. But a disconcerting factor was the Soviet announcement in mid-January that it was going to reduce production and exports too to help OPEC achieve its objectives. This, in substance, gave the Soviets a one-up edge in this nation's fragile relations in the Middle East.

It would seem logical that most of the OPEC members, their treasuries depleted and their economies in serious trouble, would raise their prices as quickly and as high as the market would allow. This may not be the case.

Jack Griffith, a Stillwater, Okla., independent and one-time PMAA president, says he has heard talk that OPEC is satisfied to hold crude prices at $18 bbl. for awhile. "They can get fat at that price and we can't drill," says Griffith, who also was an independent wildcatter at one

Pros and Cons:

Some See Crisis Coming, Others Do Not

"Within just a few years, the expected growth in American demand for imported oil alone will absorb enough of OPEC's surplus capacity to jeopardize our security. The tight market conditions of the 1970s will return together with the prospect of significant price increases or sudden shocks to an economy which may then be more highly dependent on foreign oil than it was in the 1970s."

Charles J. DiBona
President
American Petroleum Institute

"We are skeptical. There are all sorts of scenarios and assumptions. Some are being made by people who predicted $50 and up crude oil just a year or so ago. Remember, any government that can put in a price floor can also put in a price ceiling."

P. C. Chisholm
Executive Director
Petroleum Marketers Assn. of Amer.

"A strong OPEC is a problem and 'gas' lines could come back very quickly. The real problem is that people want cheap gasoline now without thinking about the future."

Jim Morris
President
Morris Oil Co.
Springfield, Mo.

"I used to tell my people and my customers that we wouldn't see another energy shortage. Now I think we will. I'm nervous about the outlook. I hate to think we may have to go through the 1970s all over again but I am afraid we might."

Jack Malone
President, Malone Oil Co.
Memphis, Tenn.

"If OPEC keeps on drying up U.S. production and marginal stuff elsewhere, OPEC will really be in the cat bird's seat within another two or three years. I believe what's being said about being heavily dependent on foreign oil by mid-1988 or shortly thereafter but if a supply shortage hits again, we'll all be in the same boat here at home."

Jack Griffith
President
Jack Griffith Petroleum Products, Inc.
Stillwater, Okla.

"Increasing imports haven't changed things on the West Coast. The same sources we have been dealing with for a number of years are still there at the same level. For independents, everything hinges on supply and we don't think growing imports will seriously affect domestic supply. That's what independent marketing is all about."

Al Wickland
President
Wickland Oil Co.
Sacramento, Calif.

"I'm concerned but I don't think the supply/demand situation is as serious as some analysts make it out to be. I doubt that we'll see a repeat of the energy crises of the 1970s. We have to be careful about crying 'wolf' about an 'energy crisis' lest the public press blows our statements about our legitimate needs all out of proportion."

William Lyden, Jr.
President
Lyden Oil Co.
Youngstown, Ohio

"Growing imports should be a matter of concern for jobbers. Jobbers are all so sure there's an oversupply that they have a real chance of being blindsided. The problem is exacerbated because urban jobbers can't get the supply contracts they might like. Greater imports are dangerous because supply interruptions could cause great disruptions."

Hal Barstow
President
Barstow Petroleum
Los Angeles

"More imports mean more products are available to independents. The independents traditionally think that, within reason, imports tend to produce greater competition among suppliers, which they see as good, because they are the customers and anything that weakens the suppliers, up to a point, is to some extent good.

Dave Harris
President
Harris Enterprises
Portland, Ore.

"Instead (of an import tax), it looks as though we shall simply wait for the crisis to come, experience the associated rampant inflation and other miseries and look for scapegoats as the political need arises. We apparently have decided, in other words, to deal with the problem just as we did during the early 1970s."

C.B. Hatfield
Professor of Geology
University of Tulsa (Okla.)

"The $18 bbl. price for oil at the beginning of this year is unsustainably low. Over the next 10 years there must be substantial price increases, possibly abrupt, or we will be locked into sharply increased dependence on OPEC, with constant vulnerability to supply interruptions."

Dermot Gately
Professor of Economics
New York University

"The only sure way to counter America's growing dependence on foreign petroleum is through the imposition of a temporary, variable fee on all imported oil, natural gas and petrochemicals. We must reduce our military and economic vulnerability and avoid a repeat of the shortage traumas of the past decade. Otherwise, I'm afraid I'll see you in the gas line in '89."

George P. Mitchell
President
Mitchell Energy Co.
Houston, Tex.

"Where we stand in the chain of distribution it really doesn't make any difference where our oil comes from. As a matter of fact, some foreign products have created a more exciting, competitive atmosphere for us. In the event of a supply crisis, I would think the industry is cohesive enough to solve its supply problems without federal allocation programs but then I don't know."

Tays Cool
President
Cool Fuel
Paramount, Calif.

"As sure as God made little green apples, OPEC will regain its dominance. Over the next five to 10 years, crude oil will hit $30 or more but this doesn't automatically mean a return to 'gas lines' and allocations, as in the '70s. This country's Strategic Petroleum Reserve is enough of an edge to give OPEC pause before considering supply cutoffs. I don't see any massive supply interruptions but there will be higher prices; in fact it'll be more of the same, up and down. We're all playing without full decks, however; no one is really sure what is going on."

Jim Emison
President
Western Petroleum Co.
Eden Prairie, Minn.

time. He doubts OPEC will loosen the price screws until it has further bled the U.S. and other high-cost producers. After that, though, watch out.

Competition For Supply

Inasmuch as the U.S. is still the world's leading consumer of oil, it will have to contest with other nations, like Japan, China and Western Europe for Middle East Oil.

A galling factor in the whole situation is that the U.S. simply isn't as prepared as it used to be to cope with shortages and distribution problems.

For example, in recent years it has mothballed or dismantled about 2 million b/d of refinery capacity. What it has left now is running about 85% of capacity which means it hasn't much leeway in processing crude in the face of an exploding demand for product.

Some mothballed capacity can be returned to operation, of course. But the longer a plant is mothballed the more difficult it is to revive it. Time, technology and the facilities themselves are factors which pose difficulties. While not insurmountable, such factors can mean months of delay in reactivating them.

Even more important, however, is the fact that these refineries, many of them small but strategically located throughout the various marketing areas, also had respectable shares of storage capacity—capacity that is now lost to the industry and the consumer alike. This loss is estimated to be about 20% of the old total capacity of about 1 billion bbl.

Too, these smaller refineries could help supply local markets. Since they are no longer available, the question of moving product from the remaining refineries and pipelines isn't as simple as it once was. This would mean that distribution problems inland would multiply quickly and probably precipitate runouts and shortages—both of which could mean gas lines again and zooming prices.

Similar fears are expressed about the availability of seagoing tankers and marine capabilities in general if global demand should explode suddenly. Here too, the declining demand of the early '80s halted construction of new tankers and saw substantial tonnage mothballed like the refineries. Current capacity is down 30% to 40% of what it used to be.

All these things are taking place as the nation's service station population continues its slide to the lowest levels in 50

years [*NPN*—Feb. '87, p31]. Likewise, the automotive population continues to increase and the automobile makers continue to press the government—and seemingly are within close distance of achieving it—for the elimination of the miles-per-gallon requirements that keep them from bringing back the big engine cars that are generally regarded as 'gas guzzlers.'

Reviewing Options

What can be done to avoid or minimize the oil crisis—if and when it does come?

There are many in the industry who would welcome higher prices for crude and product, so long as supply wasn't jeopardized. This would restore the cash flows that are needed to bail out the commitments that were made when money was more available. It also would restore interest and dollars in exploration, both in this country and in the non-OPEC nations of the world.

At the same time, there is growing controversy in the industry and Washington over the issue of putting a $5 to $10 bbl. tax on oil imports. The big oil companies, the drilling industry, many refineries and others are all for it. Not surprisingly, most marketers are opposed, especially Petroleum Marketers Assn. of America and Society of Independent Gasoline Marketers of America.

It is fast becoming a political issue which will become more controversial as the year goes on. Some in government look at it as a possible lightning rod for the escalating budget and trade deficits of the Reagan Administration.

American Petroleum Institute, the frontrunner in churning out modified alarm signals on the possible dimensions of another crisis situation has been proposing a series of steps for the past several years to head off international supply problems.

"Few people," said API President Charles DiBona recently, "comprehend that today's problems for the industry threaten the security and the economic well-being of the nation tomorrow."

He has called for a wide dialogue over energy policy with the Congress, the Administration, all branches of the industry, academia and the interested public.

A serious problem right now, he said, is that Congress and the federal government have disregarded "the absolutely basic principle that government policies, at the very least, should not further harm the nation's energy production capability."

In traumatic 1986 alone, he said, Superfund legislation and tax reform hit the industry with $14 billion more in funds that could have been used elsewhere.

He urged an end to the Windfall Profits Tax, the complete decontrol of natural gas, the opening of federal lands to exploration and production of vitally needed supplies of oil and gas, and swifter progress in the build up of the Strategic Petroleum Reserve to the level mandated by Congress.

There are pros and cons on all sides.

Marketers, with vivid memories of the nightmares of government controls in the 1970s, want no part of another round of government intervention which some sources say is the only way out of the growing crisis in the oil industry for tomorrow.

At this point, it's a toss of the coin whether crisis times are immediately ahead or some years into the future. There is no reason to believe, however, that it can be stalled off indefinitely. NPN

Federal Oil Allocation: Recalling A Tale of Woe

If another real energy crunch does come in a year or two, as some experts are predicting, the federal government will likely jump in to "help" assure "equitable" allocations of supply as it did in the 1970s.

Many marketers have bitter memories of how "helpful" the feds were the first time around.

The following is a diary kept by a Southeastern marketer in 1979, recording the trials he went through trying to get a supply allocation for a new $200,000 station from the Department of Energy. It was first printed in *NPN* in August, 1979, Page 14:

March 3-12—Prepare Form 17 (required then to get a supply allocation from a refiner).

March 13—Submit Form 17.

March 24—Try to follow up by phone. Nothing learned.

April 2—More phone attempts to followup. Attorney tries also. Contact Congressman's staff in Washington.

April 5—DOE admits it can't find application.

April 6—Air express new application.

April 10—DOE can't find second application. Air express a third application.

April 13—2 p.m. Hear from DOE regional office. Told form improperly completed, but if a revision is rushed, DOE will handle on Monday, April 16. Work feverishly to complete revised form and give to express company by 5:30 p.m.

April 16—No word from DOE.

April 17—Told work on form in process.

April 18—No word.

April 19—Call regional DOE director who says he is ready to approve but jobber should upward certify to regular supplier. Explain already have "willing supplier." DOE man says he will approve if "willing supplier" will agree.

April 20—"Willing supplier" agrees. Call DOE regional director. He is unavailable, does not return call.

April 21—Try to call him again but it's Saturday and no answer.

April 23—8:30 a.m.: Desperate. Call DOE, get case resolution officer who says he has 14 other urgent items and will approve or call this date. 4:10 p.m.: Worried so call him and told it has been approved, will telex tomorrow.

April 24—No word.

April 25—Still no word, but "willing supplier" agrees to release gasoline on verbal authority.

April 26—Pull 100,000 gal. on verbal authority.

May 3—Receive written order for temporary assignment.

May 8—No results yet.

May 24—Still no results. "Willing supplier" tries to reach DOE regional director. At 2 p.m. after two calls told he had gone for the day.

May 29—"Willing supplier" finally reaches DOE regional director who tells him everything is okay and paperwork will be started.

May 30—No results. No verbal release. Call attorney but is out of town. Call DOE regional director; he's out of office today. Ask for subordinate. He's not at desk, will return call. Thirty min. later call again. He's on phone. Hold phone three minutes, operator cuts off. "Willing supplier" calls another DOE case resolution officer who says work is in progress but 14 day notice to affected parties required, and before this happens, we have to submit on a new form! Call Congressman's aide. Call attorney. Call DOE case resolution officer who now says can do without new form. Said it's almost completed and will forward anyway. DOE case resolution officer agrees to send notices TODAY. Completed form air expressed at 5 p.m.

June 1—Waiting.

July 12—Still waiting.